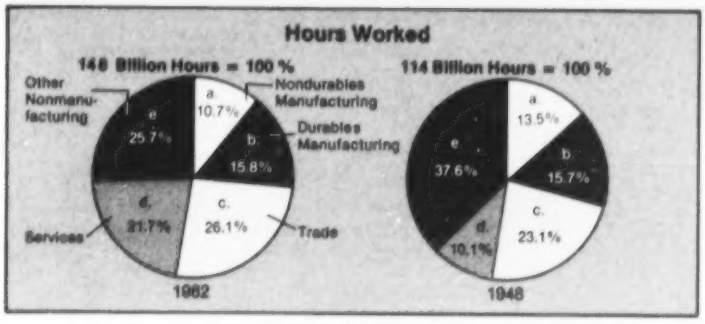
THE CONFERENCE BOARD

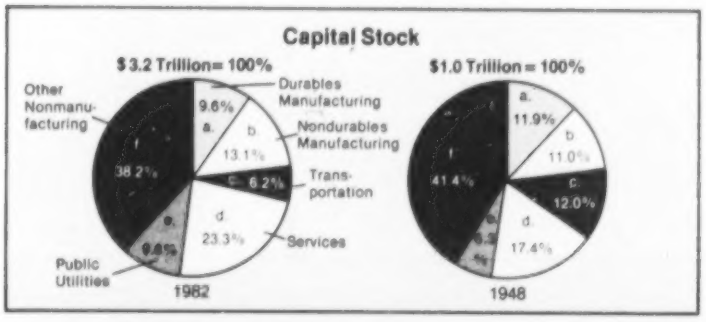
Capital Invested

Economic Road Maps
No. 1957

August, 1983

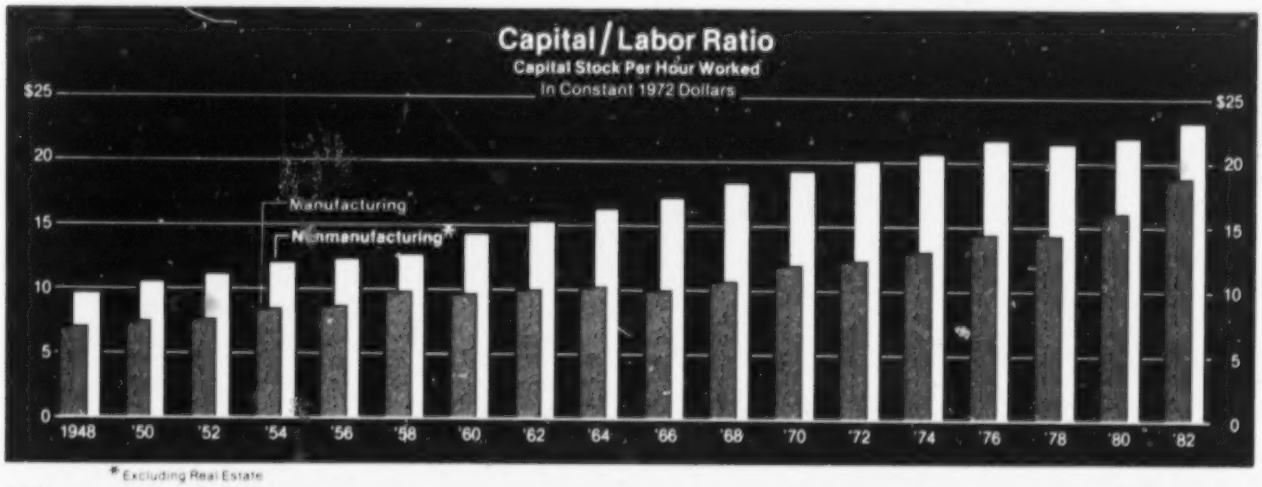
Labor and capital are the essential inputs in the production process. Raw materials or ideas are turned into finished product with the necessary tools in properly trained hands. Some processes are relatively labor intensive—that is, they require more labor input relative to capital input. Other processes are relatively capital intensive. In general, the capital stock has been rising faster than the number of hours worked over the last 35 years. As a result, the economywide capital/labor ratio has been rising, and that rise has been related to the growth of labor productivity. The slowdown in productivity gains in the late 1970's has been partly attributed to a slower rise in capital/labor ratios (see Road Map #1932 and 1933).





Labor input is generally measured in terms of the number of hours worked. In 1982, a total of 148 billion hours were put in on private-sector jobs. The broad labor input measures used here make no distinction as to who worked those hours although, obviously, not all workers are equally productive. There are similar problems in calculating an overall measure for capital. It is measured here in terms of the deflated, or constant dollar, book value of land, inventory and fixed capital (that is, structures and equipment). Changes in deflated land values are, for the most part, inconsequential. Goods producers tend to keep about 1½ months' worth of sales on hand in inventory. Growth in inventory, then, is tied to their overall rate of activity. Inventory is nonexistent for service providers. Growth in the stock of capital is principally a reflection of additional buildings and/or machinery.

The deflated value of the capital stock has been growing at an average annual rate of just under 3½% over the last 35 years. The number of hours worked has been increasing at an



* Excluding Real Estate

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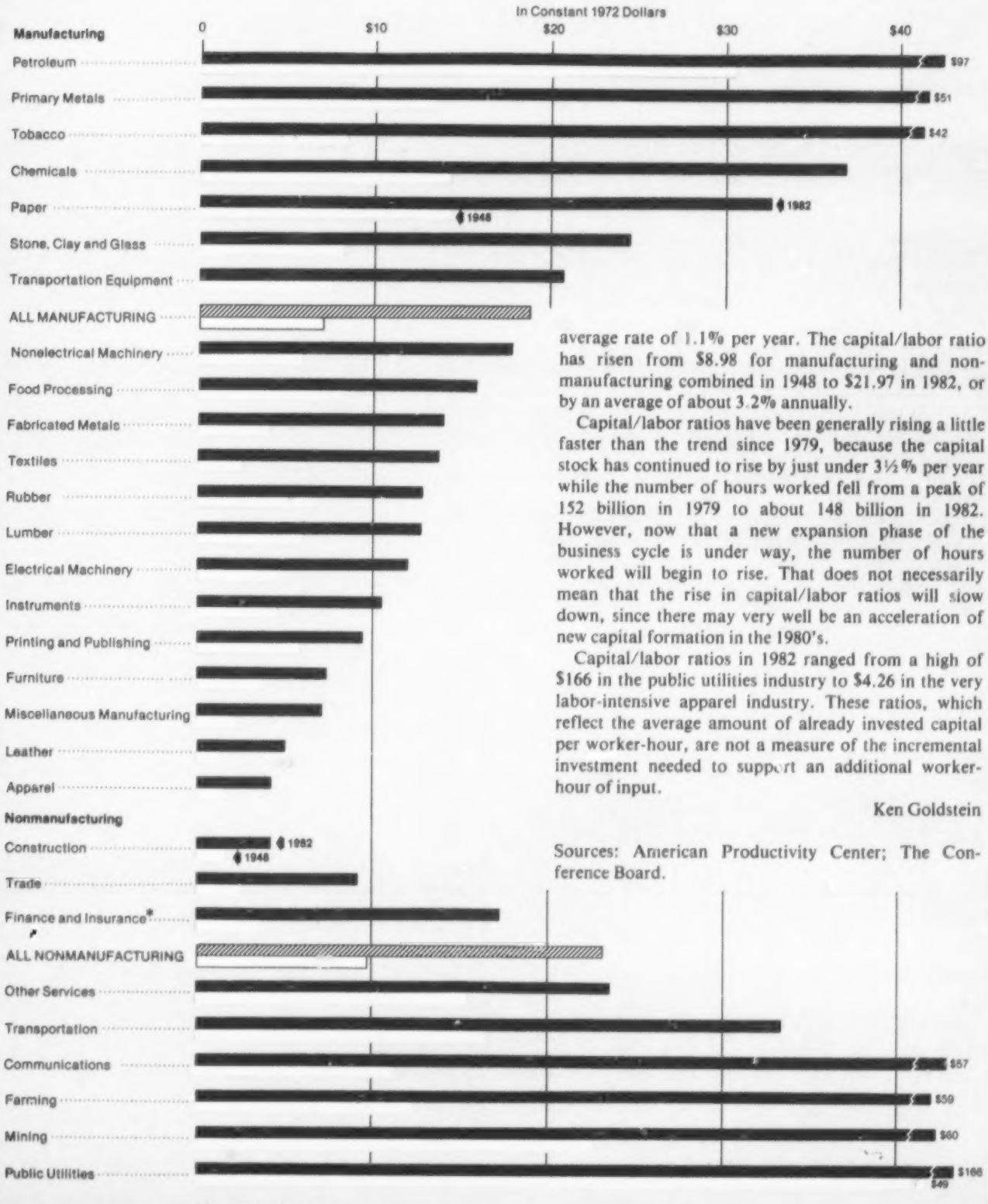
Capital/Labor Ratio

Capital Stock Per Hour Worked



* Excluding Real Estate

average rate of 1.1% per year. The capital/labor ratio has risen from $8.98 for manufacturing and non-manufacturing combined in 1948 to $21.97 in 1982, or by an average of about 3.2% annually.

Capital/labor ratios have been generally rising a little faster than the trend since 1979, because the capital stock has continued to rise by just under 3½% per year while the number of hours worked fell from a peak of 152 billion in 1979 to about 148 billion in 1982. However, now that a new expansion phase of the business cycle is under way, the number of hours worked will begin to rise. That does not necessarily mean that the rise in capital/labor ratios will slow down, since there may very well be an acceleration of new capital formation in the 1980's.

Capital/labor ratios in 1982 ranged from a high of $166 in the public utilities industry to $4.26 in the very labor-intensive apparel industry. These ratios, which reflect the average amount of already invested capital per worker-hour, are not a measure of the incremental investment needed to support an additional worker-hour of input.

Ken Goldstein

Sources: American Productivity Center; The Conference Board.

ECONOMIC ROAD MAPS

Eva Galen, Editor Chuck N. Tow, Chief Chartist

Prepared in The Business Conditions Analysis Department — Lora S. Collins, Director

Prices for Quantities of this chart will be supplied on request to Information Service.

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The Conference Board

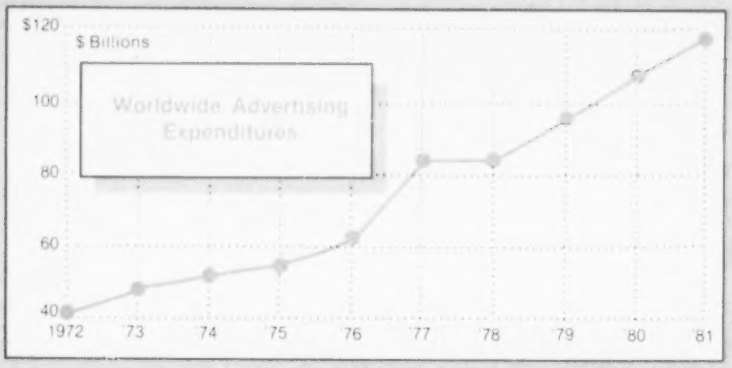
Advertising Expenditures

Economic Road Maps

Nos. 1958-1959

September, 1983

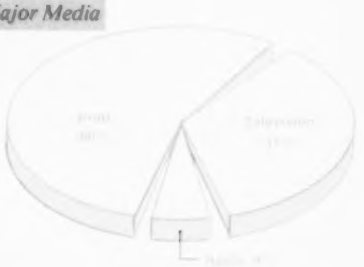
Worldwide advertising expenditures totaled an estimated $118.4 billion in 1981, the latest year for which figures are available. This represents a gain of 9.2% from 1980, considerably below the 14½% annual average growth of the preceding five years. But, seen in the context of the world economic slowdown, the 1981 increase was quite strong; in previous recessions, advertising had usually suffered a setback. The United States is by far the biggest advertising country, accounting for 52% of total worldwide advertising spending in 1981. (The advertising outlays referred to here are the expenditures made for space and time in advertising media.)



Distribution of Advertising Expenditures, 1981

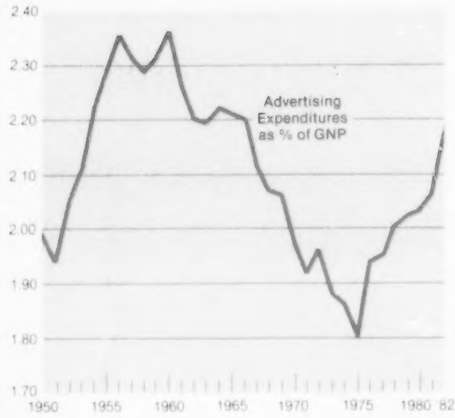
By Region

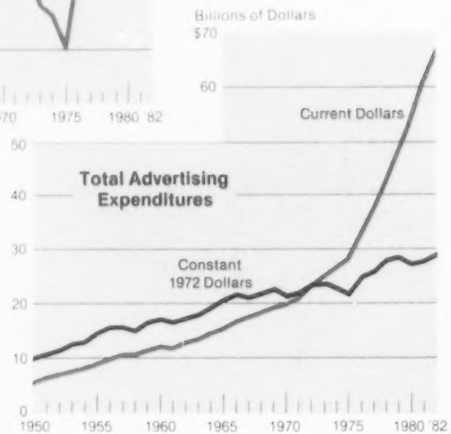
By Major Media

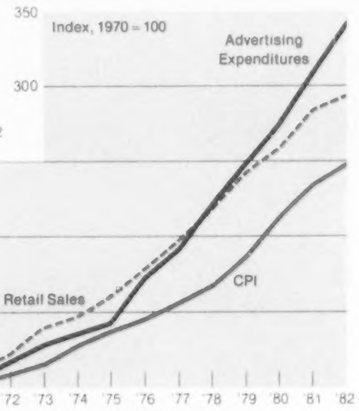


The postwar economic recovery in Western Europe and Japan and the advent of the consumer society have brought a growing awareness of the importance of advertising as a marketing tool. As living standards grew, advertising boomed. Of all media, newspapers remain the single most important vehicle for advertising. However, in the western industrial countries, the advent of new media has resulted in major shifts of advertising budgets, especially to television—both network and local.

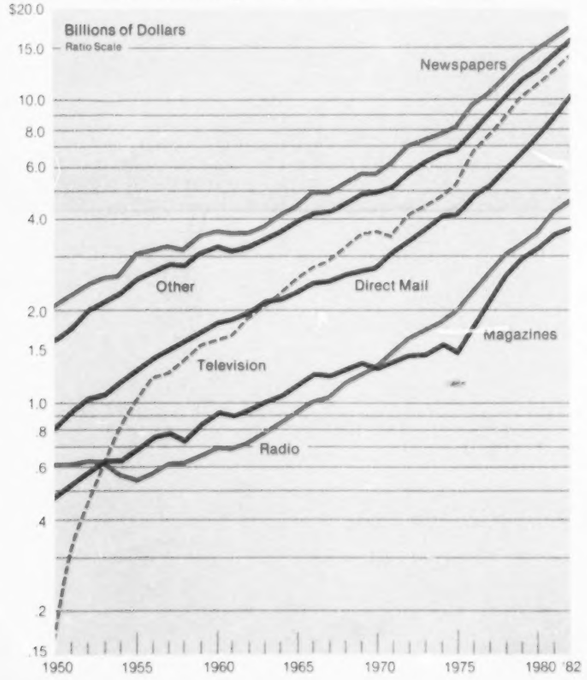
United States Advertising







Advertising Expenditures by Media

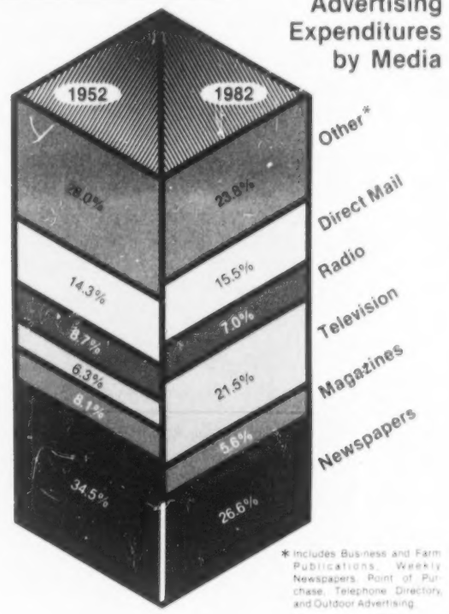


The growth of cable television will further change the way advertising money is spent. One must bear in mind, however, that television advertising time is strictly limited in a number of countries. Easing of government restrictions would result in a much faster rise in television advertising.

By any available standard of measurement, the United States leads the world in advertising outlays—be it in overall expenditures, per capita expenditures, or expenditures as a percent of GNP. Of the major industrial countries, Japan, the U.K., West Germany and France are other large advertisers, but of these only the U.K. spends an amount greater than 1% of its GNP. (Other countries, such as Finland, Australia and Argentina spend amounts equal to more than 1½% of GNP.) With the exception of the U.K. and Italy, the fastest growth in advertising outlays in recent years has been in newly developing countries such as India, Indonesia, Taiwan and Argentina. Aggregate expenditures in these countries are still relatively small, with only Argentina spending in excess of $1 billion, but their outlays have been growing at a rate of about 25% annually since 1976. For the remainder of this decade advertising expenditures outside the United States are expected to rise at a rate exceeding that of this country.

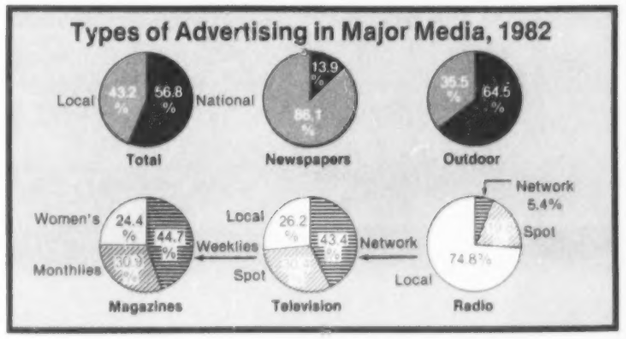
United States advertising expenditures were an estimated $66.6 billion in 1982, an increase of 10% over 1981. Advertising spending tends to decline during economic slowdowns and rise with the recovery, but the recent performance went against the trend: Outlays went up in real terms as well. The constant dollar outlays charted here are deflated by the consumer price index rather than by the composite unit price index, which goes back only to 1960. (In either case, with very rare exceptions, they have moved similarly over time.) Between the mid-1950s and the mid-1960s, the ratio of advertising to GNP ran at an average of 2.2% annually. It then took a sharp downturn, touching bottom at 1.8% in 1975. With the 1976 economic recovery, advertising spending boomed and the ratio to GNP moved to 2.18% in 1982. Estimates for 1983 are for advertising to rise faster than GNP once again, in which case the ratio to GNP will rise above 2.2 percent.

Distribution of Advertising Expenditures by Media

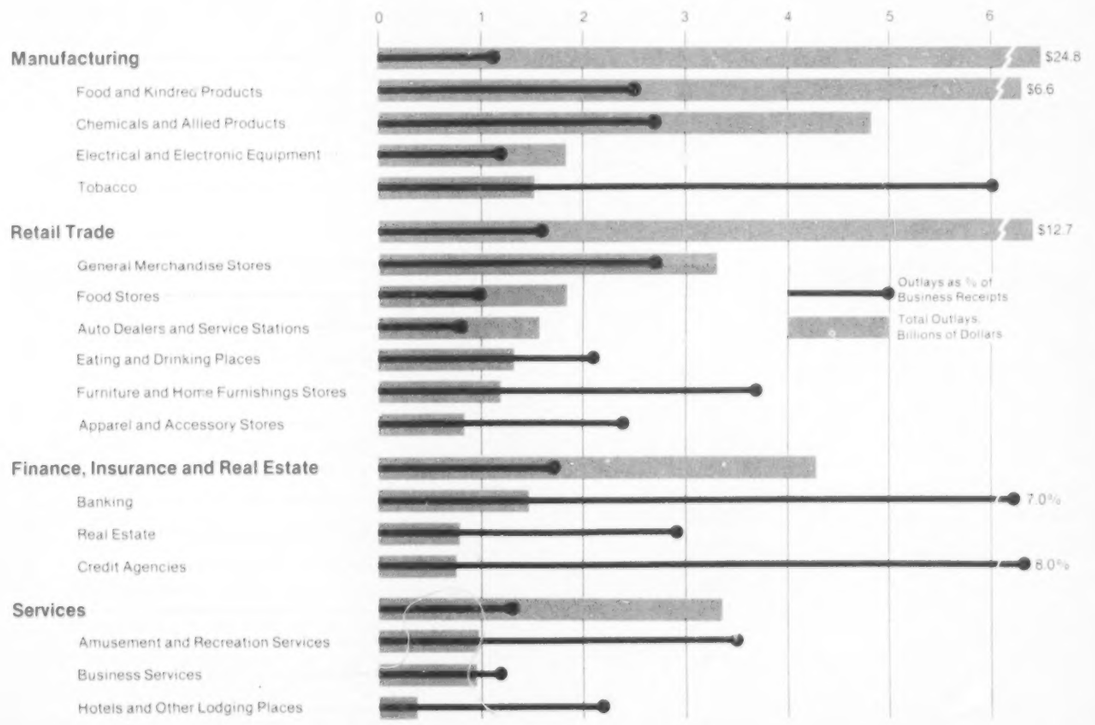


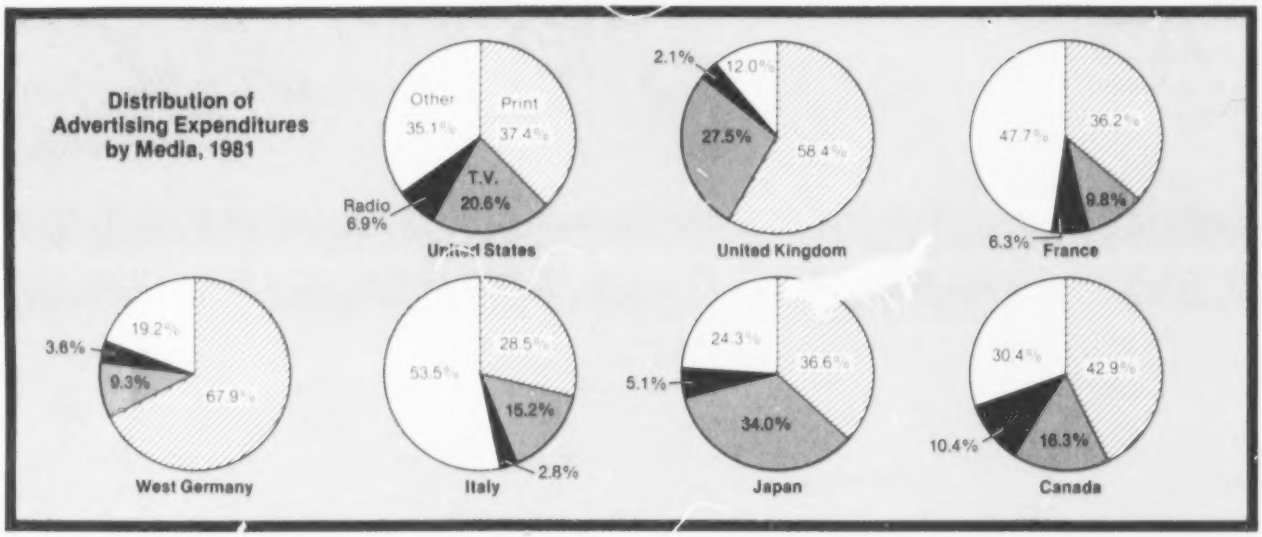
* Includes Business and Farm Publications, Weekly Newspapers, Point of Purchase, Telephone Directory, and Outdoor Advertising.

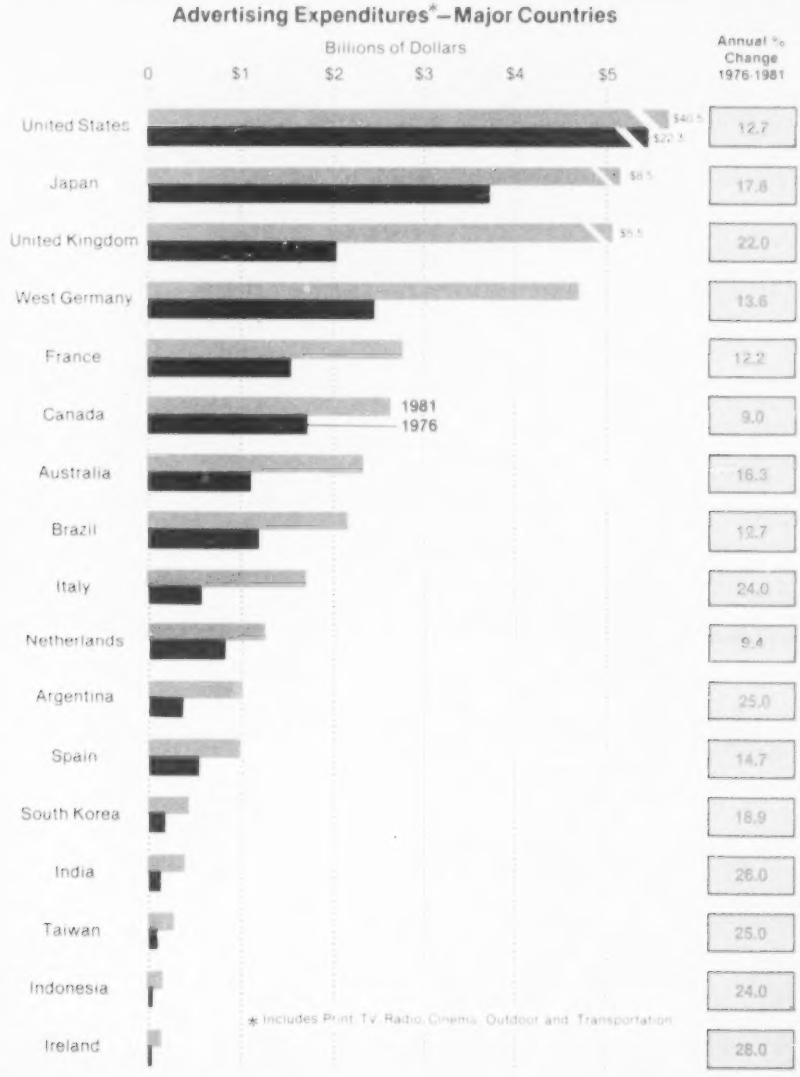
Types of Advertising in Major Media, 1982



Advertising Outlays—Selected Industries, 1980







Newspapers accounted for $17.7 billion of total United States advertising expenditures in 1982, followed by television and direct mail, with $14.3 and $10.3 billion respectively. Direct mail advertising grew by an average of 15% over the past five years, making it the fastest growing ad component; newspaper spending went up 10½% annually during the same period. While more than half of advertising money is spent on national advertising, local advertising accounts for over three quarters of total spending for radio and newspaper ads.

Data for 1980 (the latest available) show that manufacturing has the largest advertising budget of the major business sectors, followed by retail trade. Measured in terms of advertising as a percent of business receipts, the heaviest spenders include the tobacco manufacturers and financial institutions.

Eva Culen

Sources: Bureau of Economic Analysis; Internal Revenue Service; McCann-Ericson Inc.; Starch INRA Hooper, Inc: "World Advertising Expenditures"; The Conference Board.

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